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SUBJECT: El Salvador's 2010 Budget

¶1. (SBU) Summary: El Salvador's \$3.7 billion budget for 2010 increases spending by only 0.7 percent over 2009 by zeroing-out budget increases and cutting spending across a wide range of government ministries. The few ministries granted budget increases include Labor (13.3%), Public Security (9.4%), and Foreign Affairs (3.3%). A widely anticipated USD 407.7 million supplemental budget request and the uncertain effect of recently enacted tax reform cloud projections concerning the true fiscal effects of the GOES's 2010 spending plans. End Summary.

¶2. (U) The 2010 GOES budget assumes economic growth between 0.5 and 1.0 percent for the year and an inflation rate falling between 2.5 and 3.5 percent. In addition to the 2010 budget, the GOES plans to present a supplemental budget request to the National Assembly totaling \$407.7 million, mostly funded through new Eurobond debt, for social investment. The Legislative Assembly also approved the reorientation of \$300 million in Inter-American Development Bank (IDB) loans approved in May 2009, with \$150 million for disaster recovery and \$150 million for the GOES's Anti-Financial Crisis Plan, spending (and debt) that is not reflected in the 2010 budget.

¶3. (U) Under the 2010 budget, El Salvador's public sector deficit will decrease from 5.1 percent of GDP in December 2009 to 4.3 percent of GDP in December 2010, before the effects of tax reform are factored in. Debt payments will total \$769.7 million, up from \$682 million of 2009. Close to 95% of the budget will be financed with internal revenues, primarily the Value-Added and Income Taxes, with the rest from previously negotiated debt and special taxes and fees.

¶4. (U) In 2010, the budget for the Office of the Presidency will increase by 25.8 percent, or USD \$73.6 million. 26 percent of the Presidency's budget will be spent on subsidies to national social institutions and 19 percent will be allocated to the new Secretary of Culture. The National Assembly's budget was also increased by 16.9% to \$45.9 million, primarily to provide a raise for legislative staff.

¶5. (U) The Ministry of Public Security and Justice's budget will increase by 9.4 percent to \$290.3 million. Approximately 80.5 percent of the total, or \$233.6 million, is allocated to support police actions to fight delinquency. A total of USD 28.7 million will be directed to support the prison system and USD 10.3 million to the National Public Security Academy. The Attorney General's office will receive \$34.4 million, which includes funding to hire 95 new prosecutors. The Ministries of Foreign Affairs and Labor will receive increases of 3.3 percent (to \$38.4 million) and 13.3 percent (to \$11.7 million) respectively. The Ministry of Defense's budget is unchanged.

¶7. (U) The budget passed with 64 out of 84 votes, with all 20 members of the (conservative) ARENA party abstaining. To secure the smaller parties' votes, the GOES agreed to redirect \$18.9 million, primarily from the Supreme Court, to the Ministries of Health, Education, Public Security, and Defense.

¶8. (SBU) In a presentation to the diplomatic corps, (left-wing) FMLN deputies highlighted the importance of the budget increase for the Ministry of Public Security, especially the allocation for the national training academy, which they asserted would bring much-needed change to the National Civil Police (PNC). The deputies also highlighted specific programs under the Ministry of Health targeting women and war veterans that were important to their party. They noted the necessity of spending cuts in other areas to address El Salvador's growing debt burden.

¶9. (SBU) COMMENT: Constrained by a difficult economic climate, the Funes Government's first budget is pragmatic and marks little change from the budgets of previous administrations. The supplemental budget, once presented, should provide greater insight into the GOES's fiscal priorities. END COMMENT.

¶10. (U) Table I. Government Budgeted Expenditures (millions of dollars)

	2009	2010	%
change			
Legislative Branch	39.3	45.9	16.9
Judicial Branch	204.3	193.2	-5.4
Executive Branch	1,934.3	1,919.6	-0.8
President's Office	58.5	73.6	25.8
Ministries	1,875.4	1,846.0	-1.6
Finance	54.9	53.8	-2.1
Foreign Affairs	37.2	38.4	3.3
Governance	15.7	15.9	0.8
Public Security and Justice	265.3	290.3	9.4
Defense	132.9	132.9	0.0
Education	702.5	671.5	-4.5
Public Health	393.4	390.7	-0.7
Labor	10.4	11.7	13.3
Economy	43.4	41.8	-3.7
Agriculture	52.1	51.0	-2.1
Public Works	138.3	125.7	-9.1
Environment	11.0	8.5	-22.9
Tourism	18.3	13.9	-24.1
Other Institutions			
Comptroller	32.7	33.7	3.1
Elections Council	13.6	13.5	-0.8
Civil Service	0.8	0.8	0.1
Ethics Court	1.4	1.4	0.0
National Judicial Council	5.4	5.4	0.1
Human Rights Office	6.6	6.5	-1.1
Attorney General	34.1	34.4	0.8
Public Defenders Office	18.9	18.1	-4.4
Public Debt	682.0	769.7	12.9
State General Obligations	113.5	93.8	-17.4
General Transfers	541.4	518.3	-4.3
Total	3,627.8	3,654.3	0.7

¶11. (U) Table II. Government Anticipated Tax Revenue (millions of dollars)

	2009	2010	% change
¶A. Income tax	1,084.5	1,150.6	6.1
¶B. VAT	1,783.3	1,564.22	-12.3
¶C. Import duties	183.1	161.9	-11.6
¶D. Other	181.5	177.0	-2.5
Total tax revenue	3,232.4	3,053.7	-5.5

Source: Ministry of Finance
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